

# MINUTES

## SCHOLARSHARE INVESTMENT BOARD

June 16, 2000 – 1 PM-1:40 PM

915 Capitol Mall, Room 587

Sacramento, CA 95814

The meeting was called to order at 1:03 p.m. by Chair Jennifer DuCray-Morrill.

Present: Jennifer DuCray-Morrill, for Philip Angelides, Chair  
Annette Porini for B. Timothy Gage, Department of Finance  
Diana Fuentes-Michel for Sue Burr, Department of Education  
Allison Jones  
Sabrina Kay  
Allison Okyle

Staff: Susan Baltake, Executive Director, ScholarShare Investment Board  
Sue Mapes, Manager, ScholarShare Investment Board  
Cathy Van Aken, Deputy Attorney General

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board March 14, 2000 meeting were approved as submitted.

### Item # 2

#### Staff Report

---

Mr. Chris Lynch, TIAA-CREF, reported that as of June 15, 2000, the ScholarShare program had nearly \$55,600,000 in the trust with a total of almost 11,600 accounts. The average account balance was \$4,700.

Executive Director Susan Baltake reported on three pending legislative bills: SB 1503, AB 2095, and AB 2384. SB 1503 will enact the Governor's Scholar Awards program that would add approximately 100,000 new accounts each year. It is expected that this bill will pass sometime this summer for immediate implementation. AB 2095, if passed, will enact a \$500 refundable tax-credit per beneficiary for ScholarShare participants depending on household income and the amount invested. AB 2384 is a clean-up bill that will clarify a few minor issues and streamline operations.

Staff presented the marketing plan and expenditures report. It was noted in this report that Staff had reduced the first-year goal for number of accounts, however the third year goal had not been reduced. Member Kay inquired as to the rationale of this decision. Staff explained that at the time the goals had been developed, there was no data available for a comparable program. With regards to the third year goal, it is hoped that the new investment options and a potential tax-credit will help the program expand to meet the goals set. It was also noted that these goals would be revisited at a later date.

At the last meeting, Staff had been asked to research the background of the foreign language marketing plan. Member Kay inquired as to the outcome of the research. Staff reported that areas with higher percentages of populations that would not be responsive to an English language message were targeted. Money was spent as efficiently as possible to reach populations with a high degree of linguistic isolation.

Member Kay suggested that no more resources be spent to reach Filipino and Japanese populations because they do not face the same type of linguistic isolation that many other cultures face.

Staff announced that a public relations firm, Runyon, Sartzman & Einhorn, had been hired to assist with public relations and outreach. The Board was presented with an article that appeared in the California Edition of the Wall Street Journal earlier in the week as a result of outreach efforts by the firm. Ms. Baltake, Mr. Chris Lynch, and Mr. Tim Lane will be on a statewide public relations tour during the third week of June. It is expected that by the fall, a story on ScholarShare will appear in every major daily paper in the State. It was noted that the cost of the firm is paid for out of the marketing budget.

Member Jones inquired if the revised account goal included the potential Merit Scholar accounts. Mr. Lynch reported that the Merit Scholar accounts were not included in the revised goal. Member Jones also inquired if AARP had been targeted for potential marketing because of the large populations of grandparents and such that are members. Mr. Lynch noted that this is an area that has potential as a channel for program awareness.

The Board was also presented with a copy of a flyer that will be included with the June State Employee payroll announcing payroll deduction.

### **Item # 3**

#### **Approval of Asset Allocation for 100% Equity Option**

---

TIAA-CREF and Pension Consulting Alliance (PCA) jointly recommended that the allocation for the new 100% Equity Option that will be offered beginning July 1, 2000, be 80% TIAA-CREF Institutional Growth and income Fund and 20% TIAA-CREF Institutional International Equity Fund. Larry Rubin, TIAA-CREF, presented a chart demonstrating the level of risk and expected return. The chart indicated the ideal split as 80/20. Allen Emkin, PCA, indicated that this split is completely in line with the Board's risk/return objectives.

Mr. Lynch noted that the asset allocation split would be revisited annually.

Member Porini moved that the Board approve the asset allocation recommended by TIAA-CREF and PCA for the 100% Equity Option. Member Fuentes-Michel seconded. The motion was passed by a unanimous vote.

### **Item # 4**

#### **Approval of Retention of Lehman Brothers Aggregate Index for Institutional Bond Fund**

---

Larry Rubin, TIAA-CREF, reminded the Board that at the December 1999 meeting, TIAA-CREF recommended changing the benchmark used for the Institutional Bond Fund from the Lehman Aggregate Index to the Lehman Corporate-Mortgage Index effective July 1, 2000. Since then, TIAA-CREF has reconsidered because of significant negative trends in the industry. TIAA-CREF is now recommending the benchmark for monitoring performance of the bond fund remain the Lehman Aggregate Index. PCA concurs with this recommendation.

Member Porini moved that the Board keep the Lehman Brothers Aggregate Index as the benchmark for the TIAA-CREF Institutional Bond Fund. Member Okyle seconded. The motion was passed by a unanimous vote.

**Item # 5**

**Authorization of the Executive Director to Negotiate and Sign Contract Amendment  
with TIAA-CREF for Governor's Scholar Award Program**

---

SB 1503, sponsored by Governor Davis, will create the new Governor's Scholar Award Program. It allocates General Fund money to be deposited by the Board into an omnibus account within the ScholarShare Trust. If the legislation passes, the new program will significantly increase the program administration of the ScholarShare program. As an urgency provision, the bill will become effective upon signing by the Governor, anticipated in July.

Member Jones moved that the Board authorize the Executive Director of ScholarShare to negotiate and sign a contract amendment with TIAA-CREF to provide the investment management and program administration services as required under SB 1503, should it become law prior to the next Board meeting in September. Member Porini seconded. The motion was passed by a unanimous vote.

**Item # 6**

**Approval of Emergency Regulations To Use Revised Participation Agreement**

---

Staff has modified the ScholarShare Participation Agreement to include the three new investment options that will be offered beginning July 1, 2000. The new Participation Agreement will be distributed in the enrollment material beginning July 1<sup>st</sup>. Since the Participation Agreement is defined in the ScholarShare Program regulations, any change to the form requires a corresponding change to the regulations. All changes to ScholarShare regulations require the approval of the Board.

Member Porini made a motion that the Board approve an emergency regulation reflecting the changes made to the Participation Agreement. Member Jones seconded the motion. The motion was passed by a unanimous vote.

**Other Business**

---

There being no further business before the Board, the Chair adjourned the meeting at 1:40 p.m.

Respectfully submitted by,

Susan Baltake  
Executive Director, ScholarShare Investment Board